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ARIZONA CORPORATION COMMISSION

July 2, 2021

RE: In the Matter of the Application of Arizona Public Service Company for approval of its 2022 Renewable Energy Standard Implementation Plan for Reset of Renewable Energy Adjustor (Docket No. E-01345A-21-0240)

Dear Melissa Kruegar:

Thank you for timely filing Arizona Public Service Company's ("APS") 2022 Renewable Energy Standard & Tariff ("REST") Implementation Plan on July 1, 2021, as A.A.C. R14-2-2405(A) requires. I have reviewed APS's 2022 REST Implementation Plan in-part and look forward to seeing Staff's recommendation being filed before the start of the 2022 budget year.

As the cost of solar has dropped dramatically since the Commission first adopted its REST mandates in 2006, I believe capital investments and purchased power agreements ("PPAs") in new renewable energy resources will soon represent some of the most economic choices a utility can make when looking to reduce its initial costs of capacity and ongoing costs of fuel. In addition, if the carbon dioxide emissions associated with such renewable energy resources (including in both their full lifecycles and supply-chains) are less than those of their conventional energy counterparts, then selecting such resources should help to reduce the state's overall carbon footprint and reliance on uneconomic fossil fuels like coal.

For the reasons stated above, I support proactive utility capital investments and PPAs in new, used, and useful renewable energy resources that are prudent, cost-effective, and allow utilities to deliver safe and reliable power to their customers at affordable rates. Because of my personal commitment to this philosophy as a regulator, I am willing to grant just and reasonable rates of return and innovative cost recovery mechanisms to utilities that make such capital investments and PPAs openly and transparently.

To earn such a rate of return or to continue receiving such cost recovery, however, I believe that the utility must be able to demonstrate that the investments—both at the time when they were made and at the time when they were being subjected to ongoing budgetary approvals—were prudent and cost-effective. I believe prudence can be demonstrated through a rigorous and publicly-scrutinized load forecasting process and that cost-effectiveness can be demonstrated by an open, fair, and transparent competitive all-source request for proposals that considers the costs to consumers, the availability of lower-cost but equally reliable renewable energy alternatives, and the reliability to the grid.

I believe that openness and transparency are the most important of these requirements, because they ensure that the ratepayers know exactly how much they are paying for the utility's renewable energy investments and PPAs. This is especially important when the costs associated

with such investments or PPAs are being collected through a surcharge, like the REST surcharge, which passes the costs directly to customers without the scrutiny of a prudency review.

Contrary to the Commission's effort to promote openness and transparency in the utilities' expenditures, however, I noticed that Exhibits 3B and 3D of APS's 2022 REST Implementation Plan have been redacted and marked as "competitively confidential." As I understand your 2022 REST Implementation Plan to state, these exhibits show the amount of APS's requested REST surcharge and budget that are related to past renewable energy PPAs and the "above market" prices that APS has paid in order to "comply" with the Commission's 2006 REST mandates.

From my confidential review of these exhibits, I have some concerns regarding the "above market" portions related to each of these PPAs, their prudency and cost-effectiveness, and the fact that they have been redacted and marked "competitively confidential."

While we want APS to invest in renewables and recover the reasonable and prudent costs associated with complying with the Commission's rules, we also want to make sure that APS makes such investments in a way that does not take advantage of those rules and does not spend more than is necessary to comply. In particular, we do not want the fact that the Commission adopted "mandates" to be a reason that APS spends ratepayer surcharges without regard for the financial impact to ratepayers, especially if those impacts will be felt over the course of many years, such as in the case of a long-term PPA that has never been subject to a prudency review.

One of the best ways to give the public assurances that APS's future investments in renewable energy resources will be prudent, however, is to look back at the investments and PPAs that APS made in the past, such as those listed in Exhibits 3B and 3D, and confirm that they were, in fact, prudent and cost-effective at the time when they were initially made, as well as at the times when APS returned to the Commission to seek continued approval of the REST surcharge.

Redacting APS's past renewable energy PPAs and marking them "competitively confidential," however, makes it impossible for the public to know exactly how much of APS's respective REST surcharges have been used over the last 15 years to pay for these PPAs. And it also makes it impossible for the public to know exactly how much of APS's respective REST surcharges could have been saved if, for example, APS had proactively sought "waivers" of the 2006 REST mandates, as the REST rules allow, or procured renewable energy credits ("RECs") on the open market, as the REST rules also allow.

As APS can imagine, disclosure of any information that can help the public determine the prudency and cost-effectiveness of its electric service provider's PPAs is in the public interest. The costs associated with those PPAs are currently being passed directly onto families and small businesses on a one-for-one basis without the benefit of any public scrutiny from a full prudency review in a utility rate case.

Therefore, I believe the information contained in Exhibits 3B and 3D should be open to public inspection and review. This will allow both the Commission and the public to hold APS accountable for achieving its renewable energy goals and for making prudent and cost-effective

investments. Additionally, it will allow the public to determine whether any above-market-priced PPAs that APS entered into in the last 15 years were reasonable, given the fact that the option to purchase RECs and/or seek waivers of the Commission's rules were available to APS at all times relevant under the rules. Thus, I believe we need to know the cost information that is contained in APS's 2022 REST Implementation Plan so we can be assured that the filing and its requests represent our values going forward.

Accordingly, I would like to give APS an opportunity to act in the public interest and request that APS file unredacted copies of Exhibits 3B and 3D in the docket voluntarily no later than close of business on July 6, 2021.

Should APS not file unredacted copies of Exhibits 3B and 3D in the docket voluntarily by close of business on July 6, 2021, I request APS respond in writing to the docket no later than close of business July 8, 2021, explaining why APS believes the information contained in Exhibits 3B and 3D is "competitively confidential" and should remain redacted under ARS 40-204(C).

Sincerely,



Lea Márquez Peterson

Chairwoman

